



February 22, 2013

The Honorable Mark Ridley-Thomas
Chair of the Board
Supervisor, Second District
Los Angeles County Board of Supervisors
Room 866, Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

The Honorable Ridley-Thomas:

At its January 22, 2013 meeting, the Board of Supervisors (Board) requested the Los Angeles County Employees Retirement Association (LACERA) to examine its investments in companies which manufacture and/or distribute guns, and ammunition, and their subsidiaries, and report back to the Board in 30 days. To facilitate LACERA examining its investments for all companies and their subsidiaries in which LACERA invests which manufacture and/or distribute guns and ammunition, LACERA employed MSCI ESG Research to identify publicly traded companies involved in the firearm industry, namely those companies that manufacture handguns, pistols, shotguns, rifles, revolvers, and ammunition for civilian (non-military) use. MSCI ESG Research is a global investment consultant providing in-depth research, ratings and analysis of the environmental, social, and governance-related business practices of thousands of companies worldwide. MSCI ESG Research employs the following methodology to identify firearm industry companies:

Industry Segment	Description
Producer of Civilian Firearms	Companies that manufacture firearms and small arms ammunition for civilian markets. The research does not include companies that cater to the military, government, and law enforcement markets.
Firearms Retailer and Distributor	Companies that derive 15% or more of total annual revenues from the distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.
Ownership Of a Firearms Company	Companies that own 20% to 49.99% of another company with involvement in the firearm industry. When a company owns 50% or more of a subsidiary with involvement, MSCI ESG Research treats it as a wholly owned subsidiary.
Ownership By a Firearms Company	Companies that are 50% or more owned by a company with involvement.

The MSCI ESG Research methodology does not include companies dealing solely in firearm or ammunition components, air rifles, air pistols, air soft guns, toy guns, replica weapons, paintball guns, blank ammunition, gun safety equipment (such as trigger locks and safe storage boxes), and firearm accessories (such as scopes, shooting gloves, ammo carriers, mounts, gun care products, slings, belts, and gun cases).

Applying the MSCI ESG Research methodology to LACERA's December 31, 2012 investment portfolio identified approximately \$132.7 million invested in companies involved in the firearm industry. The majority of these investments, approximately \$102 million, are owned indirectly through a commingled fund where LACERA is not the direct owner. The remaining \$30.7 million are direct investments and represent less than 1/10th of 1% of LACERA's \$40.5 billion investment portfolio.

The Board also requested a description of the policies and procedures that would be required in order for LACERA to proceed with divesting from any direct or indirect holdings in companies and their subsidiaries which manufacture and/or distribute guns and ammunition. There are no specific LACERA policies or procedures for evaluating social issues in context of portfolio investment strategy. On an ad-hoc basis, the Board of Investments evaluated four social issues at the request of the Board of Supervisors.

South Africa Divestment – August 20, 1985
Tobacco Company Divestment – April 7, 1998
Tobacco Company Divestment – March 21, 2000
Sudan Divestment – February 13, 2007
Iranian Energy Sector Divestment – July 21, 2009

While not specifically requested in the Board's January 22, 2013 report request, LACERA also applied the MSCI ESG Research methodology to Los Angeles County's OPEB Trust which is invested by LACERA on behalf of the County. The OPEB Trust is currently valued at \$412.5 million and does not own any companies involved, directly or indirectly, in the firearm industry.

The Honorable Mark Ridley-Thomas
February 22, 2013
Page 3

I would be pleased to answer any questions you or your staff have regarding this report.

Respectfully submitted,



Gregg Rademacher
Chief Executive Officer

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Firearm industry report to BoS Feb 2013.docx

C: Each Member:
Board of Supervisors
Board of Retirement
Board of Investments
William T Fujioka, Chief Executive Officer, Los Angeles County
Sachi A. Hami, Executive Officer, Los Angeles County
David Kushner, Chief Investment Officer, LACERA
Robb Van Der Volgen, Chief Counsel, LACERA